GUATEMALA

The Department of State submitted this report to the Senate Committees on Foreign Relations and on Finance and to the House Committees on Foreign Affairs and on Ways and Means, on January 31, 1999.

Key Economic Indicators
(Millions of U.S. Dollars unless otherwise indicated)

	1996	1997	1998 1/
Income, Production and Employment:			
Nominal GDP	15,803	17,633	18,945
Real GDP Growth (pct)	3.1	4.0	5.2
GDP by Sector (pct):			
Agriculture	24	24	24
Manufacturing	21	21	21
Services	47	47	47
Government	8	8	8
Per Capita GDP (US$)	1,446	1,603	1,644
Labor Force (000s)	3,200	3,320	3,416
Unemployment Rate (pct) 2/	5.2	5.2	5.2
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	N/A	N/A	10.0
Consumer Price Inflation	10.8	7.3	7.0
Exchange Rate (Quetzal/US$ annual average)			
Financial Market Rate	6.10	6.10	6.40
Balance of Payments and Trade: 1/			
Total Exports FOB 3/	2,061	2,344	3,100
Exports to U.S.	744	840	1,000
Total Imports CIF	3,146	3,852	4,040
Imports from U.S.	1,380	1,585	1,650
Trade Balance 3/	-1,100	-1508	-1,060
Balance with U.S. 3/	-636	-745	-650
External Public Debt 4/	2,130	2,200	2,300
Fiscal Deficit/GDP (pct) 4/	.1	1.0	2.1
Current Account Deficit/GDP (pct) 4/	N/A	N/A	0.2
Debt Service Payments/GDP (pct) 4/	2.2	2.4	3.0
Gold and Foreign Exchange Reserves			
(Millions Net)	828	1100	1,400

Aid from U.S.	30	64	77
Aid from Other Sources	N/A	N/A	N/A

1/ 1998 figures are all estimates based on available data in October.

2/ Does not reflect estimated 40 to 50 percent underemployment.

3/ Merchandise trade data from Guatemalan customs and central bank. Trade data does not include approximately $250 million in value added by the apparel assembly industry.

4/ Data from the Guatemalan Government's preliminary 1999 budget projection and Guatemala's Central Bank.

1. General Policy Framework

Since assuming office in January 1996, the Arzu administration and the National Advancement Party (PAN), which has a majority in the legislature, have worked to implement a program of economic liberalization and to modernize the state. Signing of the final Peace Accord in December 1996, which ended Guatemala's 36-year armed internal conflict, removed a major obstacle to foreign investment. Among the government's remaining challenges, however, are the elimination of bureaucratic inefficiency as well as private and government corruption, and the improvement of internal security.

Guatemala's economy, the largest in Central America, is generally open, though a lack of transparency and bureaucratic complexity often make it difficult for foreigners to compete on an equal footing. For the last two years, real GDP growth has averaged at least 4 percent, and population growth about 2.9 percent annually. Infrastructure deficiencies, particularly in education, electricity service, telecommunications, and transportation, constrain more rapid development of Guatemala's economy. The telecommunications sector and key elements of the electricity industry have been privatized and the government has awarded concessions for operation of the railroad and the postal service. In July 1995, Guatemala became a member of the WTO.

Agriculture and commerce are the dominant economic activities, each contributing approximately 25 percent of GDP; manufacturing accounts for 15 percent of GDP and government about 13 percent. The agricultural sector accounts for two thirds of exports and about half of all employment, though there is much underemployment in all sectors. Activity in the agricultural sector is concentrated in production of the traditional products of coffee, sugar, and bananas. Non-traditional agricultural exports, e.g., specialty vegetables and fruits, berries, shrimp, and ornamental plants and flowers, account for an increasing share of export revenues. Other non-traditional industries that have experienced recent growth and have favorable prospects are apparel assembly for export and tourism. Remittances from family members abroad, which the Guatemalan Government estimates at between $450-500 million per year, are a significant source of foreign exchange.

Though tax revenues have historically been less than 8 percent of GDP, the government is committed to increasing tax revenues to 12 percent of GDP to fund social and economic development projects related to the Peace Accords. Tax revenues in 1999 are projected to exceed 10 percent of GDP. Beginning in 1994, the central bank (Bank of Guatemala) was prohibited from financing the government's budget deficit, forcing the government to issue treasury bonds, most of which were short-term. In 1996, the government began issuing securities for longer terms (up to 5 and 10 years), including several dollar-denominated issues placed on the international market at lower rates of interest. Despite the lower interest rates on government paper, debt service costs will increase slightly in 1998 because of increased borrowing to finance Peace

Accords related public spending. The central bank's restrictive monetary policies have helped keep inflation at an average of less than 10 percent, but the result is relatively high commercial bank lending rates that are cited as a disincentive for productive investment.

2. Exchange Rate Policy

Guatemala's trade imbalance and capital flight have put pressure on the foreign exchange market. Guatemala sold significant foreign reserves in 1998 -- as much as U.S. $300 million -- to prevent depreciation of the local currency. Nonetheless, the Quetzal has declined from a rate of exchange of US$=Q6.00 in January 1998 to a rate of US$=Q6.60 in November 1998, a nominal depreciation of 10 percent. Access to foreign exchange is unrestricted and there are no reports of foreign exchange shortages. Though the foreign exchange market is nominally an open market, monetary authorities in 1998 imposed trading restrictions and other administrative requirements on foreign exchange traders to manage the exchange rate.

The government passed legislation to permit banks and financial institutions to offer dollar-denominated accounts, but enabling regulations have not been issued. A number of local banks currently offer dollar denominated accounts in which the funds are actually held in offshore accounts.

3. Structural Policies

As part of the Peace Process, the government is committed to increasing spending on social, infrastructure expansion, and economic development programs. Most of the financing for this additional spending will come from grants and loans provided by the international donor community, but Guatemala will have to generate an additional $700 million in internal resources through increased tax collections. The recently created Tax Administration Superintendency (SAT) will come on stream in early 1999 and should improve tax compliance. Guatemala received over $500 million from the sale of the state-owned electricity company and will receive $700 million over three years from the recent sale of the public telephone company. The majority of these proceeds are earmarked for retirement of public debt and for energy and communications projects.

4. Debt Management Policies

Guatemala's 1999 budget projects a deficit of approximately $600 million, or 2.8 percent of GDP. This deficit will be financed through a combination of internal borrowing and loans from foreign governments and international lending agencies. Guatemala's total public debt at the end of 1998 will be approximately $2.5 billion, of which $877 million is internally held and $1.6 billion is foreign debt.

Guatemala has successfully converted most of its domestic debt from short term, high-interest instruments to longer-term, lower interest debt. The 1999 budget calls for appropriation of $334 million for debt service. Guatemala is current in its payments on both U.S. and other foreign debt.

5. Aid

Total foreign donations anticipated in the 1999 budget are approximately $72 million, of which $14 million is U.S. assistance. (Note: Official data does not accurately reflect programmed assistance. For example, actual disbursements of U.S. assistance by USAID for 1999 will be approximately $70 million.)

6. Significant Barriers to U.S. Exports

Guatemala applies the common external tariff schedule of the Central American Common Market, which has a range of from zero to 17 percent for nearly all agricultural and industrial goods. Imports are not generally subject to non-tariff trade barriers, though arbitrary customs valuation and excessive bureaucracy occasionally create delays and complicate the importation process.

Guatemala, in compliance with its WTO obligations, created Tariff Rate Quotas (TRQs) for rice, corn, wheat and wheat flour, apples, pears, poultry and beef. The Ministry of Economy has implemented a new import policy for poultry that enlarges the TRQ to the level of Guatemala's final WTO commitment and reduces the in-quota tariff. However, all poultry parts are valued at a minimum of 56 cents/pound for customs purposes, significantly increasing the effective tariff rate and the cost of imported poultry products. Guatemala's current import tariff rates for agricultural products are below the WTO tariff bindings.

Imported processed foods must be registered with the Ministry of Health by each individual importer. However, importers have the option of joining an association of importers and paying a fee for the use of other members' registrations. Processed foods must also be labeled in Spanish. Enforcement of this requirement has been lax, though compliance is increasing. Full enforcement could significantly impact imports from the United States.

Sanitary and phytosanitary licenses are required for all imports of animal origin, and plants and vegetables. Inspection of the processing plant in the country of origin, at the importers' expense, is technically required for the license; however, implementation has been uneven, limiting trade disruption.

Importers should be aware that manifests require consular certification, an administrative process that can be time consuming. Delays in obtaining certification have resulted in some losses to shipments of perishables. Guatemala has also contracted with a private import verification service to assess the value of exports to Guatemala, a process that will impose additional administrative procedures on U.S. exporters.

Some restrictions remain on foreign investment, but foreign investors generally receive national treatment. Subsurface minerals, petroleum, and other resources are property of the state and concessions are typically granted in the form of production-sharing contracts.

Surface transportation is limited to companies with at least 51 percent Guatemalan ownership. Foreign firms are barred from directly selling insurance or providing legal, accounting or other licensed professional services. This hurdle can be overcome by establishing a locally incorporated subsidiary or through a correspondent relationship with a local firm. Most of the major U.S. accounting firms are represented through one of these methods.

7. Export Subsidies Policies

There are no export subsidies.

8. Protection of U.S. Intellectual Property

Guatemala belongs to the World Trade Organization (WTO) and the World Intellectual Property Organization (WIPO). It is also a signatory to the Paris Convention, Berne Convention, Rome Convention, Phonograms Convention, and the Nairobi Treaty. In 1998, the U.S. Trade Representative maintained Guatemala on the "Special 301" Watch List.

The protection provided to intellectual property rights holders is inadequate. Enforcement mechanisms are generally lacking, a poorly trained judiciary is slow to provide relief, and penalties are insufficient to dissuade IPR infringement. Although Guatemala passed a new Copyright Law in 1998, there have been no prosecutions. Local cable television companies have reduced their broadcasts of unauthorized programming considerably, and video piracy has diminished. However, U.S. industry still suffers significant losses. Piracy, reproduction, and sale of computer software programs are also common.

Patents: Guatemala's Patent Law is outdated. It does not protect mathematical methods, living organisms, commercial plans, surgical, therapeutic or diagnostic methods, or chemical compounds or compositions. Protection is limited to 15 years (10 years for the production of food, beverages, medicines, and agrochemicals), and is subject to compulsory licensing provisions and local exploitation requirements. Patent rights do not extend to any action executed in the pursuit of education, research, experimentation, or investigation. Patent rights do not preclude the importation of counterfeit goods unless the product is being produced in Guatemala. Protection lapses six years from the date of the patent if the product is not being produced locally.

Trademarks: Guatemalan law does not provide sufficient protection against counterfeiting or misuse of trademarks, and the right to exclusive use is granted to the first to file. There is no requirement for use, nor any cancellation process for non-use. Firms whose trademarks have been registered by third parties often complain that legal remedies are slow and inadequate. Businesses whose trademark has been registered by another party are often forced either to buy out that party or pay a royalty.

The lack of protection of intellectual property rights is a significant barrier to trade and investment. Industry estimates that 85 percent of all software used in Guatemala, including applications used by government agencies, are unlicensed or unauthorized copies. The lack of protection for well-known trademarks denies access to the Guatemalan market by legitimate rights-holders and is a disincentive to investment.

9. Worker Rights

a. The Right of Association: This right is guaranteed by the constitution, though less than eight percent of the labor force is unionized. There are more than 1300 unions, the majority of which are private sector unions. The Ministry of Labor has significantly simplified and accelerated the process of obtaining legal authorization to form a union. This procedure now takes 23 working days. Significant changes were made in 1993 to modernize the Labor Code. In addition, the process for resolving "workplace" disputes has been decentralized with the opening of 21 branch offices of labor inspectors.

b. The Right to Organize and Bargain Collectively: The Labor Code allows collective bargaining if at least 25 percent of a company's employees are union members. Antiunion practices, including discharging workers for attempting to organize a union, are legally forbidden. However, despite a major increase in the number of labor inspectors and inspections, enforcement of labor laws depends on an overloaded and inefficient labor court system. The labor movement remains fractious. A widespread, historical distrust of unions by both employers and many workers, as well high rates of unemployment and underemployment, combine to make organizing and collective bargaining difficult.

c. Prohibition of Forced or Compulsory Labor: The constitution prohibits forced labor. Labor for prisoners with sentences of more than two years is obligatory, but this labor may not be used as punishment for expression of political or other opinions, or as a method of political reeducation.

d. Minimum Age for Employment of Children: By law, children under the age of 14 may work only with written permission of their parents, certified by the Ministry of Labor. Though there are currently fewer than 5,000 such permits, tens of thousands of children under 14 work in both the formal sector, including agriculture, and the informal sector, generally in family enterprises. The Ministry of Labor has initiated a program to educate minors about their rights as workers.

e. Acceptable Conditions of Work: The constitution provides for a 44-hour normal work week and the average number of hours worked is close to 45. Occupational safety and health regulations exist but often are not strictly enforced. The minimum wage is far below the level necessary to support an urban family of four, though many urban workers earn two or three times this amount; however, not all workers are paid the legally-mandated minimum wage.

f. Rights in Sectors with U.S. Investment: Generally, international corporations adhere to the labor code and respect worker rights. There have been some complaints about treatment of workers in garment assembly factories (maquilas), especially in some of those operated by Koreans. However, observation of and respect for worker rights has improved in this sector recently, due both to increased publicity and also to cooperation between the Ministry of Labor and the Republic of Korea's Ambassador.

Extent of U.S. Investment in Selected Industries -- U.S. Direct Investment Position Abroad on an Historical Cost Basis **--** 1997

(Millions of U.S. Dollars)

Category	Amount	
Petroleum		137
Total Manufacturing		160
Food & Kindred Products	69	
Chemicals & Allied Products	50	
Primary & Fabricated Metals	2	
Industrial Machinery and Equipment	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	38	
Wholesale Trade		20
Banking		4
Finance/Insurance/Real Estate		8
Services		5
Other Industries		22
TOTAL ALL INDUSTRIES		357

Source: U.S. Department of Commerce, Bureau of Economic Analysis.